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RESOURCES FOR LOCAL PUBLIC SECTOR DEVELOPMENT

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DISTRIBUTION STATEMENT A

FOREWORD

The Office of Economic Adjustment (OEA) is a part of the Office of the Secretary of Defense. It is also the staff of the President's Economic Adjustment Committee (EAC), which the Secretary chairs. The EAC was created by Executive Order to assure that Federal agency program aid is delivered on a priority basis to communities faced with impacts generated by Department of Defense program changes.

Although Federal government aid is an essential component of most Defense community economic adjustment programs, it represents only a small portion of all aid possibilities. RESOURCES FOR LOCAL PUBLIC SECTOR DEVELOPMENT was prepared to summarize a comprehensive selection of other resources available to support a successful community economic adjustment program. Many of these resources are under the control of the affected community and so can be readily applied.

This report was prepared for local public sector agencies and officials to help promote development projects.

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INTRODUCTION

Communities experiencing rapid population changes are often compelled to finance new public services and facilities and find new uses for those already in place. Time and money to support planning for effective ways to accommodate these changes are also essential. This guide suggests many programs and provides an introductory explanation to those that public sector providers--"local governments" that are municipal, county, and special districts and operate schools, housing, utilities, ports, etc.--can use to finance the planning and development of local public services and facilities needs.

No one program can be the complete or even best source of a government's varied development financing needs. In fact, certain of these programs will not be available at all in some communities. Community size, available municipal bonding capacity, state law and regulation, private sector strength, and many other factors affect the fit between a local government and possible resources for development. Different levels and kinds of governments provide the same service in different communities. The resources identified below are organized to reflect opportunities for the local government which most often provides the service in question.

These ideas are offered as a research tool. They are meant to help local public officials broaden their options to meet changing demands for services and facilities. New sources of financing for planning, construction, and operations are constantly being created; searches for them are always worthwhile.

A. Local Government Programs

1. GENERAL REVENUES -- Most taxes and other public sector collections compose a general fund maintained to pay the government's current expenses. Plans and small construction projects may readily be budgeted from this pool.

2. GENERAL OBLIGATION BONDS -- The extent of loans that governments can receive through sales of bonds backed by its "full faith and credit" is regulated by state and Federal law. These bonds are often issued to finance large projects, such as park and street improvements, that do not generate direct revenues.

3. REAL PROPERTY TAX ADJUSTMENTS -- There are four common ways that municipalities can augment this primary source of revenue. They are: a) keep the tax roles current and capture the appreciating value of taxable properties; b) raise the rate per unit of measure (e.g. cents per thousand dollars) assessed on taxable

properties; c) collect taxes owed and assessed penalties; and d) require or permit prepayment of property taxes to avoid loans and produce investment income.

4. LOCAL OPTION TAXES -- Many states permit the residents of municipalities or regions to vote to increase their own state sales tax. This increase is usually devoted to a specific project(s) and is effective for a limited period of time. When the premium is added to the sales tax on one or a related class of items (e.g. hotel room tax), it is normally used to enhance that industry (e.g. tourist attractions/destinations).

5. USER FEES -- Many governments own and operate utility systems. They may enhance revenues by raising rates and more carefully collecting fees. They may also create or raise fees for other public operations.

6. INCOME TAXES -- Many states permit the imposition of an income tax on residents of discrete areas of the state and on workers who commute into such areas.

7. DEVELOPMENT AND PUBLIC ACCESS FEES -- One time fees levied on specific developments are common. They may be in the form of a proportional share of the cost of the development which is sent to the general fund, or it may be a fee to "tap" into a public service and dedicate to its operation and maintenance.

8. PRIVATE SECTOR PROFFERS -- Some municipalities secure from (typically) developers of residential property an in-kind "proffer" in the form of the development of unassociated public property (e.g. the preparation of a school site).

9. TAX INCREMENT FINANCING -- To revitalize a specific area of a municipality, local governments can issue bonds and dedicate the receipts only to that purpose. When the redevelopment program helps the property to appreciate in value, the increased amount of property tax generated is used to service the bonds.

10. LICENSE/PERMIT/INSPECTION FEES -- These commonly levied fees can be increased, spread to new requirements, and collected more vigorously. Too much reliance on these fees can dampen local development.

11. ANNEXATION -- Unincorporated areas, whose residents will generate more property tax payments than the cost of their demand for public services, can be annexed into a municipality. Most states permit annexation only through referendum. Other reasons to support annexation may occur without regard for costs versus benefits.

12. INVESTMENT OF CAPITAL AND PENSION FUNDS -- Governments can raise substantial sums by investing idle capital funds in interest-bearing accounts, even for very short periods. This can also benefit the development cycle by making cash available to local lenders. Investing government employees' pension funds in longer term accounts can keep that fund healthy while producing extra funds for development lending.

B. Special Jurisdiction Programs

1. SALES IN OTHER JURISDICTIONS -- Because public services cannot always be produced in increments to meet precisely a specific level of new demand, excess capacity can be sold to neighboring governments or individuals. Also, extra electricity can be sold to a distant power grid.

2. LOCAL/COMMUNITY DEVELOPMENT CORPORATIONS -- There are several varieties of locally-based development corporations that can underwrite and develop both private and associated public projects. They often are composed of an umbrella organization with related divisions or subsidiaries, which operate under differing authorities (e.g. as a special arm of local government, a nonprofit, or a business modeled on private enterprise). They accumulate funding through any of the following methods: private contributions; equity participation; government appropriations; and private syndication.

3. REVENUE BONDS -- These bonds are issued to finance the expansion or repair of revenue producing public utilities services. Although many municipalities operate such services, they are usually provided through special jurisdictions devoted only to one such service. The bonds are serviced through sales of the service and consequent user fee payments.

4. INDUSTRIAL DEVELOPMENT/HOUSING/SPECIAL ASSESSMENT BONDS -- Special authorities operate in many places to provide public benefit programs to promote industrial development, affordable housing, and other services. Like utilities providers, these operators may finance their improvements through sales of bonds that are serviced by payments for services.

C. Federal and State Government Programs

1. GRANTS -- The most popular aid to local governments is grant assistance from state and Federal government agencies. This aid is not repaid. It may be provided on a competitive ("categorical") basis or on a predetermined eligibility ("entitlement") basis.

2. LOANS -- Local governments may also receive loans from other levels of government for infrastructure development. Government guarantee of private sector loans is also available.

3. SURPLUS PROPERTY -- Local governments can save money by buying at low cost or receiving the donation of buildings and equipment no longer needed by another level of government. Care must be taken to assess rehabilitation and maintenance costs to assure that receipt will be advantageous over the life of the item.

4. EARMARKED LOTTERY PROCEEDS AND TAXES -- State governments can institute lottery games and similar revenue raising techniques. Their net proceeds are usually devoted to only a few specific state-wide endeavors such as environmental protection and education. Support from these sources reduces local governments' burden in that area of service.

D. Other Sources

1. PRIVATE AND CORPORATE DONATIONS -- Private individuals and enterprises make donations of developed and undeveloped land, cash, in-kind services, and items of value for civic and tax benefit reasons. These gifts expand the public treasury or decrease the need for expenditures.

2. FOUNDATIONS -- Some charitable organizations offer cash and in-kind services to help government projects. The best information about foundations is provided by the Foundation Center which is headquartered in New York City.

3. SALES/TRADE OF PROPERTY -- Local governments can generate revenues by selling its land, buildings, and equipment for use in other areas. They can also trade assets with other owners to correct needs for costly easements, create contiguous parcels, and to establish other efficiencies.

4. VOLUNTEERISM -- Community groups of many kinds offer services that a local government would otherwise be liable to provide. Services such as educational tutoring, recreational events, construction and repair of public facilities, and health and welfare support are routinely provided by civic clubs, unions, military service organizations, corporations, and religious groups.

E. Lowered Costs/Decreased Demands

1. ZONING LAWS -- Local regulations controlling the nature of development can limit conflicting uses of land; such conflicts often lead to increased public services costs. As examples, residences in an area too remote for public sewer (or water) may be zoned to require large enough parcels to accommodate an individual septic tank (or a well), or the height of buildings can be limited to eliminate the need for special firefighting equipment.

2. GEOGRAPHIC LIMITATIONS -- Development can be clustered by use of zoning ordinances, annexation, and service districts to ensure the cost-effective provision of public services.

3. CONSTRUCTION/SERVICE REGULATIONS -- The cost of providing public services may be reduced by easing construction and maintenance standards. Examples of such actions are: reducing the square footage of library space per unit of population; narrowing the width of public streets; and permitting the use of new, cost-effective materials in the construction of public buildings.

4. "LAW AND ORDER" PROVISIONS -- Some municipalities establish agreements with employers (usually construction firms temporarily operating in the area) that require terminating employees convicted of select classes of crime. This often proves an effective deterrent to aggressive behavior.

5. PRIVATIZATION -- Many levels of government have found that many public services are provided more cost-effectively by private enterprises. Cost-benefit analyses are usually performed to gauge the possibility of savings, and the work is usually competitively bid and awarded.

6. JOINT CONSTRUCTION/USE -- Neighboring (municipal) and overlapping (municipal, county, state, and special) governments may share facilities to achieve economic scales of construction and maintenance.

7. SELF-INSURANCE -- Single and groups of governments can terminate insurance policies and save the cost of rapidly escalating premiums by creating a fund to cover liability costs. Of course, regulations must be established and enforced to reduce the governments' risk. They can also hold themselves "harmless" on certain actions.

8. LEASE/BUY -- It can be cheaper in the near term for a government to lease certain equipment (such as motor vehicles) from the private sector. This saves the lump sum purchase expenditure and the cost of long term maintenance. By using its ability to raise money at costs lower than the private sector, a government can construct a building, sell it to the private sector, and lease all or a part of it at a favorable rate.